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China, Peoples Republic of

Oilseeds and Products

Sunflowerseed Exports Likely to Continue

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Report Highlights:

While China continues to be an importer of U.S. sunflowerseed, U.S. exporters are concerned about China's growing exports of sunflowerseed kernels. The sudden increase in exports appears to be the result of market factors rather than any sort of government support. While a smaller MY 00 sunflowerseed crop may cause export prices to increase, Chinese exporters believe that structural changes in the industry will allow them to continue exports at current levels.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing [CH1], CH

Summary

While China continues to be an importer of U.S. sunflowerseed, U.S. exporters are concerned about China's growing exports of sunflowerseed kernels. The sudden increase in exports appears to be the result of market factors rather than any sort of government support. While a smaller MY 00 sunflowerseed crop may cause export prices to increase, Chinese exporters believe that structural changes in the industry will allow them to continue exports at current levels.

Mixed Signals

In the past five years, China has gone from being a non-importer of sunflowerseed, to importing roughly 14 TMT of in-shell sunflowerseeds per year. In the past year, however, China has also re-emerged as an export competitor, exporting a total of 35 TMT of sunflowerseed in MY 99, compared to only 18 TMT in MY 98. These exports are increasingly weighted toward sunflowerseed kernels, exported to lucrative markets in Germany where they compete with U.S. product. Calendar year data for 2000 show total exports at nearly 37 TMT, of which Germany and the Netherlands combined accounted for over 12 TMT. (Trade sources indicate that most exports to the Netherlands are transshipped on to Germany).

Data on sunflowerseed production is difficult to come by and of dubious quality, though basic area and production statistics are available. The situation is worse for the processing industry, which is unregulated, secretive, and for which no official data is collected. Careful investigation has led Post to conclude that the increase in sunflower kernel exports is linked to two separate events; a bumper crop of sunflowerseed in MY 99, and structural changes in China's sunflowerseed processing industry. Government assistance does not appear to have played a role in export growth. Sunflowerseed actually receives less support than other crops, and the fastest growth within the processing industry has been among privately-owned processors rather than state-owned companies.

Bumper Crop Blues

MY 1999 was a record year for sunflowerseed, with production reaching 1.8 MMT, compared with only 1.05 the year before. As a result, officials in Inner Mongolia (China's largest sunflowerseed producing province) estimate that prices fell by between \$24 and \$28 per metric ton during MY 99 to as low as \$200/MT. Poor prices led farmers to cut planted area in 2000, which, coupled with drought, caused the MY 00 crop to fall to an estimated 1.1 MMT. Large stocks left over from MY 99 now appear to have been exhausted, and prices began rising this month. Provincial officials expect that prices will remain higher throughout the marketing year. Hullers have confirmed that low raw material prices in MY 99 allowed them to cut prices, but the effects of the recent rise in sunflowerseed prices on exporters have yet to be seen.

The Long Hull

Despite rising raw materials prices, Chinese hullers expect exports to remain stable, as falling processing costs and increased competition among hullers has led to a permanent drop in prices. According to hullers, the main reason is rapid growth in the hulling industry, which now boasts

over 100 sunflowerseed hullers in Northeast China alone. Most of the new hullers are small, privately owned companies with lower processing costs than traditional state-owned firms, which has allowed them to cut prices. In addition, the increased number of hullers has sparked increased price competition, and margins have narrowed considerably over the past year. In the past, hullers received margins as high as \$36-\$48/MT, but these have now fallen so far that some of the less competitive companies plan to withdraw from the export business altogether. In an unusual twist, restructuring has favored small hullers over large ones. The majority of China's hullers have an annual capacity of 2,000 MT or less, and only two or three have a capacity of over 5,000 MT. However, most of the larger crushers are state-owned enterprises, which suffer from high financial burdens, while the small crushers are primarily privately owned. Chinese hullers also claim that low labor costs give their industry a natural advantage over foreign competitors in export markets, since certain parts of the process must still be done manually.